

Background information for Scott Koberg:

Lower Boise water quality trading framework was designed in two-year stakeholder-based process and resulted in an unprecedented and highly pragmatic approach. Its key features were:

- Farmers got to choose from a list of pre-approved BMPs for generating credits. The list also included the specifications for how to install and maintain the BMP, and how to calculate or estimate the phosphorus reduction.
- Nonpoint source credits were created by the farmer implementing the BMP, but were not able to be traded each month until verified by the point source buyer (the Reduction Credit Certificate was signed by the buyer every month).
- Credits were valid only for point source's compliance in the same month that they were generated, and needed to be created every month by the submittal of the Reduction Credit Certificate. Point sources then surrendered enough credits at the end of each month to cover their measured phosphorus discharge (and their assigned Waste Load Allocation was also translated into credits that they could keep or sell).
- The credit calculation included a percentage assigned by IDEQ that represented an individual farmer's share of the Load Allocation that must be retired and not available for trading (but since there was no TMDL yet, we never said what the percentage might be). Other calculations required were up to three sets of location-based ratios being applied to reflect the credit's environmental equivalence to Parma – the compliance point on the river where reductions needed to show up. Point sources also had to apply the location-based ratios to reflect the environmental equivalence of their discharge to Parma.
- Private contracts were used between credit generators and buyers and didn't need to be submitted to EPA or IDEQ. Also, contracts could be written for any length of time to satisfy both parties' needs for flexibility, certainty and compensation.
- Credits could be traded several times before being used by the point source buyer (Credit Transfer form).

The Lower Boise water quality trading framework was not implemented because it needed the regulatory driver of the phosphorus TMDL to create the market – i.e., there were no potential buyers of the credits because there were no new phosphorus limits in the point sources' permits coming from a TMDL.

The City of Boise's Dixie Drain project is considered a pre-TMDL trade or offset, and is not modeled after the water quality trading framework. Since the city purchased the land and constructed a phosphorus removal system, it was included under their NPDES permit for their wastewater treatment systems. That is not what EPA envisions for water quality trading involving farmers implementing BMPs on their land.

*Current developments:* Idaho DEQ, along with EPA, OR & WA are participating in a three-year project funded by an NRCS Conservation Innovation Grant awarded to the nonprofit The Willamette Partnership and The Freshwater Trust. The project is to develop a set of recommended "best practices" for the design and implementation of the states' water quality trading programs. The goal is to agree on what should be consistent across the three states to ensure the credibility and transparency of water quality trading, and what may need to be specific to each state. These consistent elements may include the following:

- a common credit registration system that establishes some basic standards for documenting credits as they are created, verified, registered, and audited on a regular basis.
- a role for third parties in brokering credit transactions by contracting with individual farmer and aggregating the credits into a larger supply that then is then sold to point source buyers. The broker

would be a for-profit or non-profit entity willing to take on the full responsibility of delivering a set number of credits to the point source buyer in a specified schedule that meets their permit needs.

- A contract covering a time period that is negotiated between the broker and the farmer, to satisfy both the farmer's need for flexibility and the broker's need for certainty to be able to sell them to a point source to satisfy their permit obligations.
- BMPs selected from a pre-approved list with specific installation and maintenance terms, as well prescribed measurement or estimation protocols that are developed in a transparent process with expert input.
- the establishment of a baseline from which a credit is calculated – i.e., what is surplus to the TMDL's expected reductions to implement the load allocation and therefore available to sell. This baseline needs to be consistent with the assumptions of the TMDL.